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| to: | **Janette Casillas** | date: | **November 14, 2012** |
| from: | **Pete Davidson** | subject: | **MRMIP Enrollment Recommendation** |

As requested, we have updated our analysis of the Major Risk Medical Insurance Program (MRMIP) revenues, expenses, and enrollment for calendar year 2013. MRMIP enrollment has continued to decline since the enrollment target was raised to 8,000 in May 2011, due in part to the more generous benefits and lower premiums available under the California Pre-existing Condition Plan (PCIP), the temporary federal high risk pool created under the Affordable Care Act.

On an accrual basis, funds appear sufficient to support MRMIP enrollment of only 5,700 during calendar year 2013, similar to current enrollment levels but much lower than the current 8,000 target. This is due to a significant increase in the estimated average subsidy due to AB 1526, as well as a significant increase in claim costs observed as reported 2011 data became more complete. Based on disenrollment surveys, implementation of PCIP in late October 2010 appears to have led to increased disenrollment from MRMIP, as some participants are willing to risk being uninsured for 6 months to gain access to the richer benefits and lower premiums in PCIP. The increase in claim costs may be due in part to additional adverse selection in the pool as lower risk members disenroll to access PCIP coverage. On a cash basis current projections indicate that enrollment of approximately 6,500 can be supported through the end of fiscal year 2013-2014. If the enrollment cap remained at 8,000 members and those slots were filled, it would likely create a shortfall at the end of fiscal year 2013-2014 unless additional revenues, such as from outstanding MRMIP settlements, are received. Current patterns and information received from the disenrollment survey indicate that enrollment is likely to continue to decline, though the premium reduction that will be effective January 1, 2013 due to AB1526 may slow or reverse that trend to some extent. Due to the time it takes for enrollment to ramp up, we believe an enrollment target of 7,000 is reasonable and active monitoring of enrollment and financial results will enable MRMIB to manage enrollment within its appropriation as the experience develops.

In developing the recommendation, we relied upon enrollment, premium, and claims data files and other information provided by Managed Risk Medical Insurance Board (MRMIB) and participating health plan staff. Our analysis was supported by continuing efforts by MRMIB staff to finalize the reconciliation settlements for past years; however challenges remain in getting health plans to agree to settlements, which continues to add significant uncertainty to the funding available in future periods.

## Background

MRMIP and the Guaranteed Issue Pilot Program (GIP) share a single funding amount. Thus, the number of individuals that can be covered under MRMIP is dependent on the funding remaining after the State pays its share of GIP costs. Financing of MRMIP and GIP is essentially on a pay-as-you-go basis, with annual appropriations and a stated goal of achieving a fund balance as close to zero as possible, without going negative, on June 30 of each year. Strict

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conformity with this goal would result in wide fluctuations in MRMIP enrollment targets from year-to-year, so we generally model fund balances over multiple years to smooth results. Pay-as-you-go financing is particularly challenging for MRMIP/GIP due to the settlement process under which the State's and health plans' ultimate liabilities are determined; this process generally takes several years to complete, though MRMIB is making substantial efforts to reduce this timeframe. These settlements may result in additional payments to or recoveries from the health plans in the amount of several million dollars, which directly and significantly impacts the funds available to cover MRMIP enrollees in the current period. MRMIB has some ability to control the timing of settlement payments, so there may be opportunities to delay or speed up payments to manage year-end fund balances if necessary, which may affect results for a given year, but doesn't change the longer term cost to the program.

Projections of cash flows can be used to understand the extent to which available funds are expected to cover anticipated program expenditures during a given time period, however it does not provide information on the long-term obligations to MRMIB associated with current, past, or future enrollees. To the extent that these obligations can be reasonably estimated we recommend that reserves be established by MRMIB, which is a departure from pay-as-you-go financing. Reserves are typically established to recognize all costs expected to be incurred during a given time period, often one year. Depending on the Board's philosophy, reserves could be established reflecting the expected net settlement liability for the next year of coverage or some portion of it; the reserves could also be built up over time or set aside immediately. The downside to establishing reserves is that those funds are no longer available to finance current and future enrollees, and the MRMIP enrollment target must be reduced to a level lower than it would be under a pay-as-you-go approach. If adequate reserves are not established and retained, MRMIB's ability to finance its existing MRMIP enrollment may be affected when the liabilities come due. However, we understand that when MRMIB has historically established reserves or maintained significant year-end fund balances in the past, these monies have been targeted and sometimes lost during the State budgeting process. Because the liabilities remain, future enrollment must then be reduced.

The development of accurate estimates of GIP settlement liabilities is confounded by the substantial delays in health plan reporting of claims experience, premium revenue, and enrollment. For example, the most recent available GIP claims experience covers calendar year 2010. In September 2007, MRMIP stopped disenrolling members after 36 months in the program, and no new GIP enrollees have been added since that time. The most recent available GIP enrollment data indicates that enrollment is declining by an average of approximately 1.5%-2% per month, and current projections estimate there will still be nearly 2,000 GIP members when the program is expected to terminate at the end of 2013. Since it will take some time for complete claims data to be reported even after all members are disenrolled, we expect GIP settlement activities to be an issue for several more years.

**Analysis**

For the purpose of developing the enrollment target for calendar year 2013, we projected cash flows through fiscal year 2013-2014. These projections were developed with the assistance of MRMIB staff, who developed the assumptions related to the timing and amount of anticipated settlements based on analysis of invoices submitted by the participating health plans. Note that

there are some significant differences in the assumed settlements compared to the assumptions applied in the development of the May 2012 enrollment target. The differences are primarily due to the assumed timing of settlements though amounts have been revised as well. Consistent with the estimate supporting the May 2012 enrollment target, receivables due from plans for past MRMIP coverage periods have been excluded due to difficulties in accurately predicting the timing and amount of payments from these plans.

The following list summarizes the primary assumptions underlying the projections:

- In May 2012, we recommended and the Board approved retention of the 8,000 member MRMIP enrollment target for fiscal year 2012-2013.
- MRMIP enrollment as of September 2012 was 5,823 members.
- The current estimate of the annual subsidy for MRMIP enrollees for calendar year 2013 is approximately $4,745 per member. This is a significant increase from the subsidy estimate for fiscal year 2012-2013 ($2,381). The increase is driven by the increase in premium subsidies due to AB 1526, as well as a significant increase in claim costs observed as reported 2011 data became more complete. The attached **Exhibit 1** summarizes the development of this figure.
- The MRMIP fund balance was approximately $52.4 million as of September 30, 2012.
- Budget appropriations
    - FY 2012-2013 appropriation for local assistance of $32.0 million was received August 2012.
    - Fines and penalties totaling approximately $1.0 million were received in September and October 2011.
    - FY 2013-2014 appropriations are expected to be $32.0 million and received August 2013.
    - Fines and penalties totaling approximately $1.0 million are expected to be received in September and October 2013.
- MRMIP settlements -- note that due to consistent problems finalizing and recovering MRMIP settlement receivables these amounts have been excluded from the cash flow projection
- GIP settlements
    - $11.7 million due to plans before the end of FY 2012-2013 and $26.9 million estimated due to plans during FY 2013-2014.

Based on the assumptions above, we projected monthly MRMIP fund balances through the end of fiscal year 2013-2014. We modeled various MRMIP enrollment scenarios with a goal of positive but not excessive fund balances at the end of fiscal years 2012-2013 and 2013-2014. We assumed that positive fund balances would be retained by MRMIB; to the extent this is not true, enrollment targets may have to be decreased. In recent months MRMIP enrollment has been declining and is currently more than 2,000 members below the 8,000 target.

The following table summarizes the results of cash flow projections at the current enrollment target and assuming a rapid enrollment increase of 250 per month occurs until the 8,000 target is reached:

***Table 1***

| Projected MRMIP Fund balance | | |
|---|---|---|
| | **June 30, 2013** | **June 30, 2014** |
| Current enrollment pattern | $19.1 million | $8.8 million |
| Enrollment increase to 8,000 | $12.7 million | -$5.8 million |

Chart 1 shows the projected monthly fund balances over the projection period based on the current enrollment pattern; Chart 2 shows projected fund balances if enrollment increases until the 8,000 target is reached. Note that actual results could vary significantly depending on timing and amount of settlements and actual enrollment patterns:

***Chart 1***

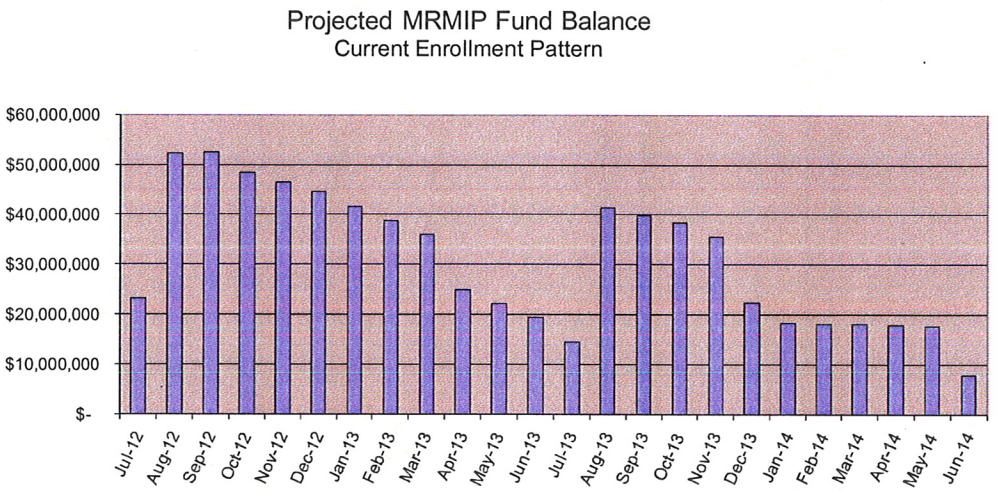

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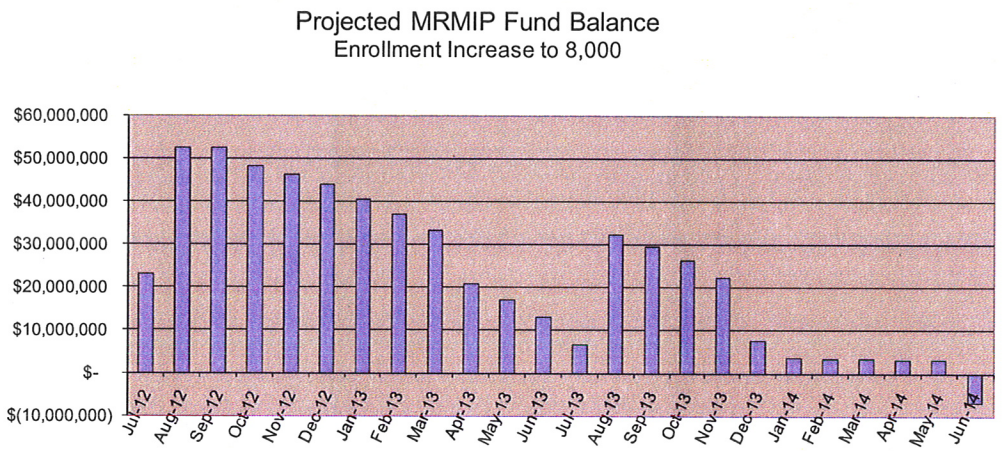
*Chart 2*




We also evaluated the number of MRMIP enrollees that could be covered during calendar year 2013 on an accrual basis. The results of that analysis are shown below:

| | |
|---|---|
| Calendar Year 2013 local assistance appropriations | $32,000,000 |
| less Estimated GIP settlements attributable to CY 2013 enrollees | $4,800,000 |
| Estimated Funds available for MRMIP enrollees | $27,200,000 |
| divided by estimated Calendar Year 2013 MRMIP subsidy per person | $4,745 |
| Estimated number of MRMIP enrollees covered by available funding | 5,732 |

We believe it is appropriate to consider both the cash and accrual estimates in reaching a decision regarding the recommended enrollment limit. The accrual estimate indicates that funding is sufficient to cover approximately 5,700 individuals, rather than the current 8,000 target. This is due to a substantial increase in the average subsidy largely due to AB1526. The cash-based estimate indicates that funding is sufficient through fiscal year 2013-2014 to cover an enrollment increase from the current level to approximately 6,500. Higher numbers of enrollees could be covered if additional revenues, such as outstanding MRMIP settlements from plans, are collected. However, current projections only reflect GIP settlements through the 2011 contract year. Rough estimates of GIP settlement liabilities for the 2012 and 2013 contract years total approximately $13 million.

We are recommending that the Board reduce the enrollment target to 7,000 for calendar year 2013. Active monitoring of applications and enrollment will ensure that corrective actions can be taken in the event that enrollment cash shortfall appears likely in fiscal year 2013-2014.

We applied best estimates in developing these projections, but the uncertainties associated with the program lead to a wide range in projected fund balances. This suggests a conservative approach (e.g., establishing at least partial reserves or maintaining lower MRMIP enrollment) or an active (i.e., frequent re-evaluation) approach to selecting enrollment targets is appropriate until the settlement liabilities and receivables are known with more certainty. We are currently taking an active approach (by re-evaluating caseload, expenditures and projections twice a year).

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Please contact me if there are any questions.

# California Major Risk Medical Insurance Program

**Exhibit 1**

## Projection of Calendar Year 2013 Average Costs

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|---|---|
| Summary of expected state costs | |
| Average base period claim costs per person per year | $10,649 |
| Trend adjustment from base period to projection period | 1.1020 |
| Projected claim costs per person per year | $11,735 |
| Average plan admin cost per person per year | $276 |
| Total cost per person per year for calendar year 2013 | $12,011 |
| | |
| Summary of expected premiums | |
| Current average premium | $8,295 |
| Adjustment to average expected premium level for calendar year 2013 | -12.4% |
| Average expected premium calendar year 2013 | $7,266 |
| | |
| Expected average state subsidy | ***$4,745*** |
| | |
| Base period loss ratio | 138% |
| Projected loss ratio | 162% |